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In The

Supreme Court of the United States

October Term 1973

No. 73-187

Kewanee Oil Company,
Plaintiff-Petitioner,

v.

Bicron Corporation et al,
Defendants-Respondents.

BRIEF AMICUS CURIAE BY THE LICENSING EXECUTIVES SOCIETY IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

I.

NATURE AND INTEREST OF THE AMICUS CURIAE

The Licensing Executives Society is a professional association of persons who are intimately involved in licensing of technology and industrial property rights, including trade secrets and know-how.

The Society in the United States is composed of over 900 members, some members representing large corporations; others representing small companies; some being private practitioners of the law.[1]

[1] While there are now in addition to the 900 persons referred to above who are U.S. citizens, also foreign chapters and members of the Licensing Executives Society, Inc., reorganization is already in process for final ratification at the October 1973 annual convention, by which the United States members will be formalized into their own nonprofit corporation independent of foreign chapters. This brief is sponsored only by the United States group, acting through the Board on advice of the Committee on Laws.

Inherent in the work of the Society's members is continuing contact with the financing and generation of new technology, with procedures to protect the technology developed, and with the interrelation between the necessity of protection and the ability to obtain financing.

The members of this amicus are persons who buy, sell and direct the protection of billions of dollars worth of technology[2] which is endangered by the decision below. These members negotiate the licenses under which over a billion dollars are paid annually, under which millions are paid each day.

The decision below, conflicting not only with other circuits, but with decisions in most states and announcements by the Supreme Court, purports to destroy in large measure the assets and licenses which the members of this amicus handle on a continuing basis.

II.

ARGUMENT: REASONS WHY A WRIT OF CERTIORARI SHOULD BE GRANTED

(1) The Conflict Among Circuits Is One Of Important Substance

The decision below announces for the Sixth Circuit a new rule in conflict with two treaties,[3] many state statutes,[4]

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[2] See discussion in Appendix A at end of brief.

[3] Article 10 bis of the Paris Convention Act of Lisbon, 1958, 13 U.S.T. 1 provides: "(1) The countries of the Union are bound to assure to persons entitled to the benefit of the Union effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." Article 20 of the Pan American Convention of 1929, 46 Stat. 2907, provides: "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and, therefore, unjust and prohibited."

[4] See Appendix B at the end of this brief.

case law in most states,[5] and prior announcements of this court.[6] In addition, the court below acknowledged the rule to be in conflict with the law in other circuits.[7]

The new rule is that the patent laws of the United States precludes by preemption enforcement of the trade secret law of the State of Ohio, insofar as the trade secret law would protect technology within patent classes of subject matter (35 U.S.C. § 101) which has been in use for more than one year (35 U.S.C. § 102(b)).

This rule strikes at the heart of tens of thousands of contracts for license or transfer of trade secrets, subcontracts for the manufacture of subassemblies or parts of larger machines, employment contracts, contracts for research and development, etc.

Most trade secrets involve technology which is largely in the unpatented form of confidential information which has been in commercial use for more than one year. The technology is ordinarily the product of large investment in research and development and of many years of practical

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[5] The opinion below acknowledges case law supportive of trade secrets in "most of the states" without citation. *Kewanee Oil Co.* v. *Bicron Corp.*, ___F.2d___, 178 U.S.P.Q. 3, 8 (6th Cir. 1973).

[6] The Court has written a number of times supportive of trade secrets, including statements to the effect that trade secrets are "independent of the patent law", *Becher* v. *Countoure Laboratories, Inc.*, 279 U.S. 388, 391, 49 S. Ct. 356, (1929); and that an inventor "may keep his invention secret and reap its fruits indefinitely," *U.S.* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186, 53 S. Ct. 554 (1933)

Never, *in any case where trade secret law and industry practice was briefed to the Court*, has this Court ever intimated the possibility of patent law preemption of trade secret law.

[7] *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. den.* 383 U.S. 934 (1966), *rehearing denied* 384 U.S. 914 (1966); *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. den.* 402 U.S. 945 (1971); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2nd Cir. 1971).

knowledge and experience in the trade. It constitutes a "commodity" which can be bought, sold and traded.

Speaking in terms of rough orders of magnitude, United States business:

(1) pays annually over one hundred million dollars for licenses of foreign technology;

(2) receives annually over a billion dollars for licenses of U.S. technology to foreigners; and

(3) pays and receives many billions each year for licenses of technology, both domestic and foreign.[8]

These dollars, and these tens of thousands of contacts, are severely impacted by the rule announced below.

(2) The Conflict Among Circuits Will Create Forum Shopping And Resultant Judicial Inefficiency

Litigation costs and judicial inefficiency abound in contests over where a lawsuit is to be tried, and commercial litigation is particularly susceptible to such contests because of the liberality of the venue statutes in bringing suit against corporations.

Because of the rule below, millions of dollars in accruing royalty payments under trade secret licenses are now due or not due, depending on which party to the contract brings suit first and which party can keep the suit in the forum he selected.

Such a situation is patently intolerable.

(3) The Rule Announced Below Favors Dishonor And Disloyalty

All will recall the memory-expert spy of the World War II movies who got jobs in U.S. plants, memorized data, and

[8] See discussion in Appendix A.

disclosed it to the enemy. The rule announced below condones, even sponsors, a similar practice of spying on competitors.

The rule announced below inevitably condones the taking by indirection (by employment of another's employees) of the same technology that would be called theft if taken by the direction of stealing documents with the secret processes written thereon.

Such unfair practices unfortunately have become so prevalent that 21 states, since the *Sears*[9] and *Compco*[10] decisions by this Court in 1964, have enacted criminal statutes to prevent theft of trade secrets.[11] The rule below, however, has placed these statutes in jeopardy.

There has to be public policy favoring the concepts that a business not reap where it did not sow, that an employee be loyal to the business which entrusted him with its confidential information, and that trusts and confidences be observed.

(4) The Conflict Among Circuits Frustrates The Conduct Of Contract Negotiations

Members of this amicus work at negotiations for license of new technology on a continuing daily basis. Anyone of these licenses may be worth millions.[12]

Business in values of such magnitude cannot be suspended over night, but the conflict among circuits is devastating to responsible conduct of this business. Businesses cannot

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[9] *Sears Roebuck & Co.* v. *Stiffel Company*, 376 U.S. 225 (1964).
[10] *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).
[11] Appendix B includes citations to these statutes.
[12] See, for example, *Imperial Chemical Industries, Ltd.* v. *National Distillers and Chem. Corp.*, 342 F.2d 737, 744 (2nd Cir. 1965), where Toyo of Japan had agreed to pay about $6,000,000 for information on how to build a polyethylene reactor. A frequent price for chemical process licenses in the last ten years has been in the million dollar order of magnitude.

freely license their technology if a court is likely to invalidate the license on the rule of law announced below.

(5) The Conflict Among Circuits Frustrates The Planning And Budgeting Of Research And Development Programs

Private business expends millions each year for research and development of new technology. Many of the developments of these programs are commercially valuable, but at the same time are not sufficiently broad in scope of application to warrant the expense of patent protection. The established law of trade secrets has been consistently relied on for protection of this technological information and the investment it represents.

The conflict below creates such uncertainty that business cannot responsibly plan to invest millions in research and development programs, the results of which are not protectable in the Sixth Circuit.

(7) The Conflict Among Circuits Disrupts One Of Foreign Technology By U.S. Industry

Heretofore, United States industry has bought, by way of licenses and other contracts, technology from foreign companies, the value of which approximates one hundred million dollars per year.[13] This input of technology to U.S. companies each year has been used by United States companies in providing goods and services to our citizens.

The rule of law announced below renders the purchases of trade secret technology from abroad not feasible, for a foreign business will not be inclined to reveal its trade secrets to U.S. licensees if the payments for such trade secrets are unenforceable.

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[13] See discussion in Appendix A.

Similarly, foreign business will be reluctant to license its trade secrets if the U.S. licensee is not bound to keep the technology secret from competitors of the foreign business. Under the rule below, an unlicensed competitor could gain the technology simply by hiring one of the U.S. licensee's employees, at a suitable bonus.

If the rule announced below is allowed to stand, foreign business would be foolish to license trade secret technology to U.S. business.

(7) The Conflict Among The Circuits Disrupts One Billion Annually In U.S. Balance Of Payments Credit

The entire economy of our nation has been buffeted in recent years by the deficit in international balance of payments. As pointed out before, licensing of technology by U.S. business to foreign purchasers exceeds one billion dollars annually. This technology in large measure involves unpatented, but proprietary information.

Under the rule below, a prospective foreign purchaser of technology can hire a few key employees of a U.S. business for a short time, at a suitable price, and avoid fair payment for the technology.

The rule announced below would sacrifice probably over a billion a year in international balance of payments credits which this nation's economic posture can ill afford to lose.

CONCLUSION

The conflict of law among the circuits is devastating to an important activity of U.S. business.

Issuance of a writ of certiorari to resolve the uncertainty arising out of the conflict is respectfully urged.

Respectfully submitted,

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APPENDIX A

Dollar Significance Of Technology Within The Rule Below

Payments for trade secret know-how are commonly intermixed with payments for other values ranging from patent licenses to training of the licensee's personnel. In addition, know-how is very often sold for speculative values in equity participation, rather than for royalties or dollar payments. Such transactions of course do not ordinarily appear in economic data.

Accordingly, it is impossible to gather precise figures on the dollar volume of know-how conveyances by United States industry. But the billion-dollar-plus order of magnitude is reliably available from a number of sources, such as Department of Commerce studies of sources of international balance of payment credits, etc.

The 1961 figures from *Technological Innovation: Its Environment and Management*, A Report of the Panel on Invention and Innovation, U.S. Department of Commerce, 1967, are of interest though the figures are now some 12 years old. There we find:

> "An important element of our international balance of payments is what is called the 'technological' balance of payments. This international account reflects payments for technical know-how, patent royalties and the like. In a recent study of the technological balance of payments of various countries, the 'Organization for Economic Cooperation and Development' (OECD) published data for the United States which are depicted in Chart 5. The OECD compilation shows the U.S. receiving roughly ten times the technological payments from abroad as goes out in payments to other nations. This is a very significant secondary effect of innovation in the American economy."

The Chart 5 shows 1961 payments to other countries, $63,000,000; receipts by U.S. from others in 1961, $577,000,000; net balance to U.S. in 1961 of $514,000,000. These figures of course do not count domestic know-how licensing.

The National Industrial Conference Board, Inc., 845 Third Ave., New York, New York 10022, in its 1969 research report *Appraising Foreign Licensing Performance, Studies In Business Policy, No. 128*, cited published and unpublished data from the U.S. Department of Commerce, and stated that "receipts of royalties and license fees from abroad have more than doubled over the course of the last ten years, rising from around $378 million in 1957 to an estimated $786 million in 1967."

In *Survey of Current Business*, U.S. Dept. of Commerce, Vol. 51, No. 3, March 1971, the income to the United States in 1970 for fees and royalties from international arrangements is stated to be $1,538,000,000.

The exact amount of these fees and royalties which are properly allocable to know-how rather than patents or other sources is unknown, but many persons who work in technology licensing believe that the license value of unpatented technology is as significant as the license value of patented inventions.

A study of the relative importance of income from patent licensing and from know-how licensing is described in *Comparative Income Roles of U.S. Industrial Property Rights Licensed Abroad*, 14 IDEA 352, Fall 1970. This study is informative, but it does not provide precise answers.

After review of the above figures, extrapolation to 1973, and subtraction for direct patent licenses which may be included, one comes to the conclusion that an order of magnitude approaching a billion dollars for income to the

United States under *international* licenses of unpatentable trade secrets is a plausible figure. At the same time, one can reasonably conclude, based on the above 1961 data, that value approaching one hundred million is being paid to foreign business in exchange for know-how licenses.

After addition of an unknown value of domestic trade secret licenses (no meaningful figures are known), one must surely conclude that multiple billions are involved annually in the licensing of U.S. owned trade secrets.

If one capitalizes the annual income to an asset value, the present asset value of U.S. trade secret know-how, which is within the rule below, is in the order of magnitude of several billions of dollars, since very little, if any, technology is licensed for such high figures unless placed in use and usable for much longer than a year.

APPENDIX B

State statutes, since *Sears* and *Compco* in 1964, which render theft of trade secrets a crime

Ark. Stat. Ann. 6641-3949 to 6641-3951 (1967)
Cal. Penal Code §499c (1967)
Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967)
Ga. Crim. Code § 26-1809 (1968)
Ill. Rev. Stat. Ch. 38 § 15-1 to 15-9, § 16-1 (1965)
Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969)
Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967)
Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967)
Mich. Compl. Laws §§ 752.771 to 752.773 (1968)
Minn. Stat. Ann. § 609.52 (1967)
Neb. Rev. Stat. Ch. 28, §§ 548.01 to 548.03 (1965)
N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)
N.J. Stat. Ann. §§ 2A: 119-5.1 to 119-5.5 (1965)
N.M. Stat. Ann. § 40 A-16-23 (1967)
N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967)
N.C. Gen. Stat. § 14-75.1 (1967)
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Pa. Stat. Tit. 18, § 4899.2 (1965)
Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

CERTIFICATE OF SERVICE

The undersigned hereby certifies that copies of the foregoing were on this 30TH day of JULY, 1973 mailed by regular airmail to counsel for Petitioner and Respondents as follows: Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio 44115, Mr. Roger Milgrim, Milgrim, Tomajan and Jacobs, 25 Broadway, New York, New York 10004; Mr. William C. McCoy Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio 44114.